Grant Thornton

Financial Statements and Independent Auditor's Report

"ARMSWISSBANK" closed joint stock company

31 December 2012

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Independent auditor's report

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To the Shareholder and Board of Directors of "Armswissbank" CJSC:

We have audited the accompanying financial statements of "Armswissbank" closed joint stock company (the "Bank"), which comprise the statement of financial position as of December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the "Armswissbank" CJSC as of December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gagik Gyulbudaghyan
Managing Partner

Armen Vanyan
Auditor

Grant Thornton CJSC
15 April, 2013
Yerevan

Statement of comprehensive income

In thousand Armenian drams	Notes	**Year ended December 31, 2012**	Year ended December 31, 2011
Interest and similar income	6	**5,658,875**	4,326,816
Interest and similar expense	6	**(2,789,424)**	(2,038,730)
Net interest income		**2,869,451**	2,288,086
Fee and commission income	7	**104,605**	150,532
Fee and commission expense	7	**(21,498)**	(22,143)
Net fee and commission income		**83,107**	128,389
Net trading income	8	**37,095**	128,796
Gains less losses on investments available for sale		**62,176**	60,788
Other income	9	**152,507**	99,728
Impairment charge for credit losses	17	**(322,282)**	(300,706)
Staff costs	10	**(627,948)**	(580,023)
Depreciation of property and equipment	19	**(56,460)**	(55,020)
Amortization of intangible assets	20	**(7,978)**	(7,698)
Other expenses	11	**(212,952)**	(258,343)
Profit before income tax		**1,976,716**	1,503,997
Income tax expense	12	**(351,745)**	(305,114)
Profit for the year		**1,624,971**	1,198,883
Other comprehensive income:			
Net unrealized gains from changes in fair value		**509,220**	275,477
Net (gains)/losses realized to net profit on disposal of available-for-sale instruments		**(266,069)**	31,254
Income tax relating to components of other comprehensive income		**(48,630)**	(61,346)
Other comprehensive income for the year, net of tax		**194,521**	245,385
Total comprehensive income for the year		**1,819,492**	1,444,268

The accompanying notes on pages 7 to 51 are an integral part of these financial statements.

Statement of financial position

In thousand Armenian drams	Notes	As of December 31, 2012	As of December 31, 2011
ASSETS			
Cash and balances with CBA	13	**4,799,612**	5,694,191
Precious metals	14	**84,567**	49,542
Amounts due from other financial institutions	15	**3,134,471**	3,693,617
Derivative financial assets	16	**186**	20,764
Loans and advances to customers	17	**27,341,299**	21,841,997
Investments available for sale	18	**5,055,014**	4,381,926
Securities pledged under repurchase agreements	26	**13,222,935**	11,442,926
Property, plant and equipment	19	**758,132**	648,561
Intangible assets	20	**35,806**	43,784
Other assets	21	**143,596**	161,448
TOTAL ASSETS		**54,575,618**	47,978,756
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the CBA	22	**15,464,966**	11,977,387
Derivative financial liabilities	16	**293**	5,506
Trading Liabilities	15,17	**-**	798,055
Amounts due to other financial institutions	23	**7,614,530**	8,584,986
Amounts due to customers	24	**18,549,952**	15,740,237
Current income tax liabilities		**230,957**	104,576
Deferred income tax liabilities	12	**95,683**	61,929
Other liabilities	25	**325,709**	232,044
Total liabilities		**42,282,090**	37,504,720
Equity			
Share capital	27	**7,002,000**	7,002,000
Statutory general reserve		**1,500,000**	1,000,000
Other reserves		**295,247**	100,726
Retained earnings		**3,496,281**	2,371,310
Total equity		**12,293,528**	10,474,036
TOTAL LIABILITIES AND EQUITY		**54,575,618**	47,978,756

The financial statements from pages 3 to 51 were signed by the Bank’s Executive Director on 15 April 2013.

The accompanying notes on pages 7 to 51 are an integral part of these financial statements.

G. MACHANYAN
Executive Director

S. BAGHDASARYAN
Chief accountant

Statement of changes in equity

In thousand Armenian drams	Share capital	Statutory general reserve	Revaluation reserve of securities available for sale	Retained earnings	Total
Balance as of January 1, 2011	7,002,000	500,000	(144,659)	1,672,427	9,029,768
Distribution to reserve	-	500,000	-	(500,000)	-
Transactions with owners	-	500,000	-	(500,000)	-
Profit for the year	-	-	-	1,198,883	1,198,883
Other comprehensive income:					
Net unrealized gain from changes in fair value	-	-	275,477	-	275,477
Net losses realized to income statement on disposal of available-for-sale instruments	-	-	31,254	-	31,254
Income tax relating to components of other comprehensive income	-	-	(61,346)	-	(61,346)
Total comprehensive income for the year	-	-	245,385	1, 198,883	1,444,268
Balance as of December 31, 2011	**7,002,000**	**1,000,000**	**100,726**	**2,371,310**	**10,474,036**
Distribution to reserve	**-**	**500,000**	**-**	**(500,000)**	**-**
Transactions with owners	**-**	**500,000**	**-**	**(500,000)**	**-**
Profit for the year	**-**	**-**	**-**	**1, 624,971**	**1, 624,971**
Other comprehensive income:					
Net unrealized gain from changes in fair value	**-**	**-**	**509,220**	**-**	**509,220**
Net gain realized to net profit on disposal of available-for-sale instruments	**-**	**-**	**(266,069)**	**-**	**(266,069)**
Income tax relating to components of other comprehensive income	**-**	**-**	**(48,630)**	**-**	**(48,630)**
Total comprehensive income for the year	**-**	**-**	**194,521**	**1,624,971**	**1,819,492**
Balance as of December 31, 2012	**7,002,000**	**1,500,000**	**295,247**	**3,496,281**	**12,293,528**

Statement of cash flows

In thousand Armenian drams	**Year ended December 31, 2012**	Year ended December 31, 2011
Cash flows from operating activities		
Profit before tax	**1,976,716**	1,503,997
Adjustments for		
Impairment charge for credit losses	**322,282**	300,706
Amortization and depreciation allowances	**64,438**	62,718
Interests receivable	**125,577**	(91,148)
Interests payable	**76,299**	23,762
Foreign currency translation net (gain)/losses of non-trading assets and liabilities	**(55,817)**	38,236
Net income from changes in fair value of trading instruments	**15,364**	(5,311)
Cash flows from operating activities before changes in operating assets and liabilities	**2,524,859**	1,832,960
(Increase)/decrease in operating assets		
Precious metals	**(35,025)**	104,243
Amounts due from other financial institutions	**954,426**	496,379
Loans and advances to customers	**(5,033,556)**	(8,203,723)
Other assets	**11,910**	31,288
Increase/(decrease) in operating liabilities		
Repurchase agreements with the CBA	**3,567,881**	6,343,778
Trading liabilities	**(798,055)**	798,055
Amounts due to financial institutions	**(1,781,045)**	(946,107)
Amounts due to customers	**2,717,104**	2,620,744
Other liabilities	**94,334**	147,916
Net cash flow used in operating activities before income tax	**2,222,833**	3,225,533
Income tax paid	**(288,723)**	(311,562)
Net cash from operating activities	**1,934,110**	2,913,971
Cash flows from investing activities		
Purchase of investment securities	**(2,370,209)**	(2,932,222)
Purchase of property and equipment	**(166,173)**	(83,744)
Proceeds from sale of property and equipment	**142**	31
Purchase of intangible assets	**-**	(1,128)
Net cash used in investing activities	**(2,535,240)**	(3,017,063)
Cash flow from financing activities		
Loans redeemed from the CBA	**(66,373)**	(19,121)
Loans received from other financial institutions	**608,949**	1,248,333
Other long term loans received/ (redeemed)	**(506,854)**	172,266
Net cash from financing activities	**35,722**	1,401,478
Net increase/(decrease) in cash and cash equivalents	**(566,408)**	1,298,386
Cash and cash equivalents at the beginning of the year	**6,071,383**	4,732,924
Exchange differences on cash and cash equivalents	**24,048**	40,073
Cash and cash equivalents at the end of the year (note 13)	**5,529,023**	6,071,383

Supplementary information:

Interest received	**5,791,099**	4,376,295
Interest paid	**(2,872,937)**	(2,128,983)

Accompanying notes to the financial statements

1 Principal activities

Armswissbank CJSC (the "Bank"), incorporated in the Republic of Armenia (RA) in 2004, is a closed joint stock company regulated by the legislation of RA. The Bank conducts its business under license number 84, granted on 07 October 2004 by the Central Bank of Armenia (the "CBA").

The Bank's main activities include provision of corporate, investment and private banking services – investments in financial instruments, accepting deposits from physical and legal entities, provision of other service in the field of finance and banking (lending and factoring).

The head office of the Bank is located in Yerevan. The registered office of the Bank is located at: 10 V. Sargsyan str., Yerevan, 0010, RA.

2 Armenian business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base.

There are still uncertainties about the economic situation of countries, collaborating with the RA, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Bank may be exposed to deterioration. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Bank may be affected.

Accordingly, the financial statements of the Bank do not include the effects of adjustments, which might have been considered necessary.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

3.2 Basis of measurement

The financial statements have been prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortized cost and non-financial assets and liabilities are stated at historical cost.

3.3 Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional currency and the Bank's presentation currency is Armenian Drams ("AMD"), since this currency best reflects the economic substance of the underlying events and transactions of the Bank.. These financial statements are based on the Bank's books and records as adjusted and reclassified in order to comply with IFRS. The financial statements are presented in thousands of AMD, which is not convertible outside Armenia.

3.4 Changes in accounting policies

In the current year the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2012. The standards and interpretations effective in the current year had no effect on the financial statements of the Bank.

3.5 Standards, amendments and interpretations not yet applied by the Bank

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to the existing Standards have been published but are not yet effective. The Bank has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Bank's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

New standards, amendments and interpretations to the existing Standards that are not yet effective

IAS 32 (Amendment) *Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- The meaning of 'currently has a legally enforceable right of set-off': the amendments clarify that a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties, and that the right must also exist for all counterparties.
- Since there was diversity in practice related to the interpretation of 'simultaneous settlement' in IAS 32, the IASB has therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement.

The amendments are effective for annual reporting periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

IFRS 9 *Financial Instruments*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

The IASB has issued an amendment to IFRS 9 which deferred the mandatory effective date of IFRS from 1 January 2013 to 1 January 2015. This means that all the phases of the project to replace IAS 39 will now have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Additional transition disclosures will now be required to help understand the initial application of the Standard.

Management have yet to assess the impact of this new standard on the Bank's financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. This IFRS shall be applied prospectively and no need to present comparative information provided for periods before initial application of this IFRS. The Bank's management have yet to assess the impact of this new standard on the financial statements.

IAS 1 *Presentation of Financial Statements*

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Bank's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

Annual Improvements to IFRSs 2009-2011 Cycle

The amendments to IFRSs contained in Annual Improvements 2009-2011 Cycle are effective for annual periods beginning on or after January 1, 2013, although early application is permitted.

The brief descriptions of the issues addressed are presented below:

IAS 1 *Presentation of Financial Statements*

The amendment provides clarification of the requirements for comparative information when an entity provides a third statement of financial position either as required by IAS 8 or voluntarily.

The following issues are addressed for opening statement of financial position

- Comparative information for the opening statement of financial position is required when an entity changes accounting policies, or makes retrospective restatements or reclassifications, in accordance with IAS 8, and
- The appropriate date for the opening statement of financial position is the beginning of the preceding period. Related notes to this opening statement of financaila position are no longer required to be presented

The amendment also clarifies issues related to comparative information beyond the minimum requirements, particularly

- addresses whether an entity should be required to present a complete set of financial statement when it provides financial statements beyond the minimum comparative information requirements (i.e., additional comparative information)
- explains that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements. Any additional information presented should however be presented in accordance with IFRSs and the entity should present comparative information in the related notes for that additional information.

IAS 16 *Property, plant and Equipment*

The amendment addresses the classification of servicing equipment. It clarifies that major spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

IAS 32 *Financial Instruments: Presentation*

The amendment clarifies that income tax relating to distribution to equity holders and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

4 Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

4.1 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expense is recognized to the extent that it is probable that the economic benefits will flow from the Bank and the expense can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within “interest income” and “interest expense” in the comprehensive income statement using the effective interest method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income and expenses

Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences related to trading assets and liabilities. Net trading income also includes gains less losses from trading in foreign currencies.

4.2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Gains and losses resulting from the translation of trading assets and liabilities are recognised in the comprehensive income statement in net trading income, while gains less losses resulting from translation of non-trading assets are recognized in the statement of income in other income or other expense. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Differences between the contractual exchange rate of a certain transaction and the prevailing average exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies in net trading income.

The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

	December 31, 2012	December 31, 2011
AMD/1 US Dollar	**403.58**	385.77
AMD/1 Euro	**532.24**	498.72

4.3 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the comprehensive income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In the case when financial statements are authorized for issue before appropriate tax returns are submitted, taxable profits or losses are based on estimates. Tax authorities might have more stringent position in interpreting tax legislation and in reviewing tax calculations. As a result tax authorities might claim additional taxes for those transactions, for which they did not claim previously. As a result significant additional taxes, fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include even more periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Armenia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of other expenses in the comprehensive statement of income.

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balance on correspondent accounts with the Central Bank of Armenia and amounts due from other banks, which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost.

4.5 Precious metals

Gold and other precious metals are recorded at CBA prices which approximate fair values and are quoted according to London Bullion Market rates. Changes in the bid prices are recorded in net gain on operations with precious metals in other income/expense.

4.6 Amounts due from other financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by management. Amounts due from other financial institutions are carried net of any allowance for impairment losses.

4.7 Financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

When financial assets and liabilities are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition all financial liabilities, other than liabilities at fair value through profit or loss (including held for trading) are measured at amortized cost using effective interest method. After initial recognition financial liabilities at fair value through profit or loss are measured at fair value.

The Bank classified its financial assets into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. The classification of investments between the categories is determined at acquisition based on the guidelines established by the management. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss. A financial asset is classified in this category if acquired for the purpose of selling in the short-term or if so designated by management from the initial acquisition of that asset.

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments, which arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the comprehensive income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Available-for-sale financial instruments

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the comprehensive statement of income. However, interest calculated using the effective interest method is recognised in the comprehensive statement of income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis. Otherwise the investments are stated at cost less any allowance for impairment.

4.8 Impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty (for example, equity ratio, net income percentage of sales), default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in the comprehensive statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If future write-off is later recovered, the recovery is credited to the allowance account.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the comprehensive statement on income, is transferred from equity to the comprehensive statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4.9 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the comprehensive statement of income.

4.10 Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements and faced as the separate balance sheet item. The corresponding liability is presented within amounts due to financial institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other financial institutions or loans and advances to customers as appropriate and are not recognized on the balance sheet. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4.11 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized in the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

4.12 Property, plant and equipment

Property, plant and equipment ("PPE") are recorded at historical cost less accumulated depreciation. If the recoverable value of PPE is lower than its carrying amount, due to circumstances not considered to be temporary, the respective asset is written down to its recoverable value.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

	Useful life (years)	Rate (%)
Buildings	30	3.3
Computers	4	25
Vehicles	5	20
Office inventory	5	20
Other fixed assets	2-5	33.33-20

Assets under the course of construction are accounted based on actual expenditures less any impairment losses. Upon completion of construction assets are transferred to property plant and equipment and accounted at their carrying amounts. Assets under the course of construction are not depreciated until they are ready for usage.

Repairs and maintenance are charged to the comprehensive income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is incurred and when it satisfies the criteria for asset recognition. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

4.13 Intangible assets

Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Current software development costs are recognised as an expense as incurred.

4.14 Borrowings

Borrowings, which include amounts due to the Central Bank and Government, amounts due to financial institutions, amounts due to customers and subordinated debt, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

4.15 Pensions

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Armenia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

4.16 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, in “Other liabilities”, being the premium received. Following initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

4.17 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

4.18 Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank purchases the Bank’s shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

4.19 Offsetting

Financial assets and liabilities, and income and expenses, are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The most significant areas of judgements and estimates with regards to these financial statements are presented below:

Classification of investment securities
Securities owned by the Bank comprise Armenian state and corporate bonds and corporate shares. Upon initial recognition, the Bank designates securities as available-for-sale financials assets with recognition of changes in fair value through equity.

Related party transactions
In the normal course of business the Bank enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Allowance for impairment of loans and receivables
The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Tax legislation
Armenian tax legislation is subject to varying interpretations. Refer to Note 28.

Impairment of available-for-sale equity investments
The Bank determined that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

6 Interest and similar income and expense

In thousand Armenian drams	2012	2011
Loans and advances to customers	**2,862,541**	1,991,822
Debt investment securities available-for-sale	**2,098,497**	1,789,970
Income from factoring	**380,198**	197,076
Amounts due from other financial institutions	**108,813**	83,701
Reverse repurchase transactions	**85,117**	59,900
Other interest income	**11,321**	-
Interest accrued on individually impaired financial assets	**112,388**	204,347
Total interest and similar income	**5,658,875**	4,326,816

In thousand Armenian drams	2012	2011
Amounts due to customers	**1,258,874**	902,145
Amounts due to financial institutions	**632,344**	534,931
Repurchase transactions	**898,206**	601,654
Total interest and similar expense	**2,789,424**	2,038,730

7 Fee and commission income and expense

In thousand Armenian drams	2012	2011
Cash collection	**29,475**	20,348
Wire transfer fees	**33,683**	38,996
Brokerage operations	**12,054**	75,864
Guarantees and letters of credit	**20,503**	6,866
Other fees and commissions	**8,890**	8,458
Total fee and commission income	**104,605**	150,532

In thousand Armenian drams	2012	2011
Wire transfer fees	**17,331**	14,562
Other expenses	**4,167**	7,581
Total fee and commission expense	**21,498**	22,143

8 Net trading income

In thousand Armenian drams	2012	2011
Gains less losses from transactions in foreign currencies	**51,667**	107,000
Gains less losses from derivatives	**(14,572)**	21,796
Total net trading income	**37,095**	128,796

9 Other income

In thousand Armenian drams	2012	2011
Fines and penalties received	**40,982**	41,201
Gains from operations with precious metals	**25,267**	39,066
Net gains from foreign currency translation of non trading assets	**55,817**	-
Income from disposal of collateral	**14,471**	3,180
Income from dividends	**13,152**	16,281
Income from disposal of fixed assets	**650**	-
Other income	**2,168**	-
Total other income	**152,507**	99,728

10 Staff costs

In thousand Armenian drams	2012	2011
Wages and salaries	**585,952**	539,319
Social security contributions	**41,996**	40,704
Total staff costs	**627,948**	580,023

11 Other expenses

In thousand Armenian drams	2012	2011
Repair and maintenance of fixed assets	**33,024**	31,956
Advertising costs	**4,647**	11,670
Business trip expenses	**9,536**	9,630
Communications	**63,965**	55,040
Taxes, other than income tax, duties	**14,849**	23,715
Consulting and other services	**10,584**	10,200
Security	**7,966**	7,970
Representative expenses	**15,809**	18,645
Office supplies	**6,374**	9,625
Penalties paid	**23**	1,730
Insurance expenses	**15,103**	13,068
Financial mediator expenses	**8,950**	7,342
Losses from operations with precious metals	**5,169**	4,044
Foreign currency translation net losses of non-trading assets and liabilities	**-**	38,236
Other expenses	**16,953**	15,472
Total other expense	**212,952**	258,343

12 Income tax expense

In thousand Armenian drams	**2012**	2011
Current tax expense	**401,621**	285,000
Adjustments of current income tax of previous years	**(35,000)**	3,225
Deferred tax	**(14,876)**	16,889
Total income tax expense	**351,745**	305,114

The corporate income tax within the Republic of Armenia is levied at the rate of 20% in 2012 (2011: 20%). Differences between IFRS and RA statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred income tax is calculated using the principal tax rate of 20%.

Numerical reconciliation between the tax expenses and accounting profit is provided below:

In thousand Armenian drams	**2012**	**Effective rate (%)**	2011	Effective rate (%)
Profit before tax	**1,976,716**		1,503,997	
Income tax at the rate of 20%	**395,343**	**20**	300,799	20
Non-taxable income	**(2,630)**	**-**	(3,255)	-
Non-deductible expenses	**932**	**-**	8,783	1
Foreign exchange (gains)/losses	**(3,270)**	**-**	2,858	-
Other	**(3,630)**	**-**	(4,071)	-
Adjustments of current income tax of previous years	**(35,000)**	**(2)**	-	-
Income tax expense	**351,745**	**18**	305,114	21

Deferred tax calculation in respect of temporary differences:

In thousand Armenian drams	**2011**	**Recognized in comprehensive income statement**	**Recognized in equity**	**2012**
Other liabilities	**5,114**	**11,415**	**-**	**16,529**
Fines receivable from impaired assets	**-**	**12,985**	**-**	**12,985**
Total deferred tax assets	**5,114**	**24,400**	**-**	**29,514**
Loans and advances to customers	**(29,475)**	**(4,142)**	**-**	**(33,617)**
Other assets	**(6,674)**	**186**	**-**	**(6,488)**
Other provisions	**(5,713)**	**(5,568)**	**-**	**(11,281)**
Investments in securities available for sale	**(25,181)**	**-**	**(48,630)**	**(73,811)**
Total deferred tax liability	**(67,043)**	**(9,524)**	**(48,630)**	**(125,197)**
Net deferred tax liability	**(61,929)**	**14,876**	**(48,630)**	**(95,683)**

In thousand Armenian drams	2010	Recognized in comprehensive income statement	Recognized in equity	2011
Other liabilities	4,456	658	-	5,114
Investments in securities available for sale	36,165	-	(36,165)	-
Total deferred tax assets	40,621	658	(36,165)	5,114
Loans and advances to customers	(13,993)	(15,482)	-	(29,475)
Other assets	(4,622)	(2,052)	-	(6,674)
Other provisions	(5,700)	(13)	-	(5,713)
Investments in securities available for sale	-	-	(25,181)	(25,181)
Total deferred tax liability	(24,315)	(17,547)	(25,181)	(67,043)
Net deferred tax asset/(liability)	16,306	(16,889)	(61,346)	(61,929)

13 Cash, cash equivalents and balances with CBA

In thousand Armenian drams	**2012**	2011
Cash on hand	**772,448**	852,590
Correspondent account with the CBA	**4,027,164**	4,841,601
Cash and balances with CBA	**4,799,612**	5,694,191
Cash and balances with the CBA, included in cash flows	**4,799,612**	5,694,191
Placements with other banks (note 15)	**729,411**	377,192
Total cash and cash equivalents	**5,529,023**	6,071,383

As at 31 December 2012 correspondent account with Central Bank of Armenia represents the obligatory minimum reserve deposits with the CBA, which is computed at 8% of certain obligations of the Bank denominated in Armenian drams and 12% of certain obligations of the Bank, denominated in foreign currency and amounts to AMD 2,688,581 thousand (2011: AMD 2,045,752 thousand). There are no restrictions on the withdrawal of funds from the CBA, however, if minimum average requirement is not met, the Bank could be subject to penalties. Mandatory reserve deposits are non-interest bearing.

14 Precious metals

In thousand Armenian drams	**2012**	2011
Gold in vault	**84,567**	43,053
Silver in vault	**-**	6,489
Total precious metals	**84,567**	49,542

15 Amounts due from other financial institutions

In thousand Armenian drams	2012	2011
Correspondent accounts with financial institutions	**729,411**	377,192
Included in cash and cash equivalents	**729,411**	377,192
Loans and deposits	**2,324,047**	2,817,308
Reverse repurchase agreements	**81,013**	499,117
Total amounts due from other financial institutions	**3,134,471**	3,693,617

As at 31 December 2012 the correspondent accounts, deposits and other amounts in amount of AMD 2,013,258 thousand (64%) were due from two banks (2011: AMD 1,232,213 thousand or 33%).

As at 31 December 2012 included in loans and deposits are guarantee amounts extended by the Bank in the amount of AMD 200,369 thousand (2011: AMD 222,292 thousand) intended to carry out trade operations in international markets.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December, 2012 are presented as follows:

In thousand Armenian drams	2012		2011	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
Securities issued by the RA Ministry of Finance	**83,623**	**81,013**	504,656	499,117
Total assets pledged and loans under reverse repurchase agreements	**83,623**	**81,013**	504,656	499,117

As of 31 December 2011 securities in the amount of AMD 296,812 thousand out of securities purchased under repurchase agreements were resold to third party with one month maturity period and the liability relating to these securities is included in the trading liabilities row of the statement of financial position.

16 Derivative financial instruments

In thousand Armenian drams	2012			2011		
	Notional amount	**Fair value of assets**	**Fair value of liabilities**	Notional amount	Fair value of assets	Fair value of liabilities
Derivatives held for trading						
Swaps – domestic	**258,495**	**86**	**293**	817,478	4,600	404
Swaps – foreign currency	**749,461**	**100**	**-**	1,327,576	16,164	5,102
Total derivative financial instruments and other trading liabilities	**1,007,956**	**186**	**293**	2,145,054	20,764	5,506

17 Loans and advances to customers

In thousand Armenian drams	2012	2011
Loans to customers	**21,927,372**	20,117,469
Factoring	**3,090,143**	1,583,739
Reverse repurchase agreements	**507,836**	493,459
Overdrafts	**2,454,366**	84,908
Financial leasing	**1,274**	2,958
Other	**298**	665
	27,981,289	22,283,198
Less allowance for loan impairment	**(639,990)**	(441,201)
Total loans and advances to customers	**27,341,299**	21,841,997

As of 31 December 2012 accrued interest income included in loans and advances to customers amounts to AMD 314,792 thousand (2011: AMD 292,504 thousand).

As of 31 December 2012 the weighted average interest rates on loans and advances to customers were 12.98% (2011: 13.15%).

As of December 31, 2012 the Bank had a concentration of loans represented by AMD 8,238,313 thousand due from the ten largest third party entities and parties related with them (29.4% of gross loan portfolio) (2011: AMD 6,810,398 thousand due from the ten largest third party entities and parties related with them or 30.5%). An allowance of AMD 108, 251 thousand (2011: AMD 110,523 thousand) was made against these loans.

Reconciliation of allowance account for losses on loans and advances by economic sectors is as follows:

In thousand Armenian drams	2012	2011
Industry	**11,211,758**	9,070,819
Agriculture	**2,215,199**	1,495,009
Construction	**1,842,515**	1,792,934
Trading	**4,259,863**	2,991,167
Consumer	**800,642**	996,046
Mortgage loans	**2,823,067**	1,699,569
Transport and communications	**640,438**	727,731
Public food and other service sectors	**1,615,854**	1,084,865
Other	**2,571,953**	2,425,058
	27,981,289	22,283,198
Less allowance for loan impairment	**(639,990)**	(441,201)
Total loans and advances to customers	**27,341,299**	21,841,997

Reconciliation of allowance account for losses on loans and advances by class is as follows:

								2012
In thousand Armenian drams	Industry	Agri-culture	Const-ruction	Trading	Con-sumer	Mortgage	Other	Total
At 1 January 2012	**261,506**	**5,723**	**17,929**	**29,912**	**9,960**	**17,846**	**98,325**	**441,201**
Charge/(Reversal) for the year	**74,518**	**29,329**	**63,230**	**93,071**	**(9,741)**	**39,727**	**32,148**	**322,282**
Amounts written off	**(10,440)**	**(23,954)**	**(51,300)**	**-**	**(64,405)**	**(31,780)**	**(13,806)**	**(195,685)**
Recovery	**-**	**-**	**-**	**-**	**72,192**	**-**	**-**	**72,192**
At 31 December 2012	**325,584**	**11,098**	**29,859**	**122,983**	**8,006**	**25,793**	**116,667**	**639,990**
Collective impairment	**89,214**	**11,098**	**29,859**	**59,599**	**8,006**	**25,793**	**102,595**	**326,164**
Individual impairment	**236,370**	**-**	**-**	**63,384**	**-**	**-**	**14,072**	**313,826**
	325,584	**11,098**	**29,859**	**122,983**	**8,006**	**25,793**	**116,667**	**639,990**
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	**905,591**	**-**	**-**	**316,921**	**-**	**-**	**119,562**	**1,342,074**

								2011
In thousand Armenian drams	Manu-facture	Agri-culture	Const-ruction	Trading	Con-sumer	Mortgage	Other	Total
At 1 January 2011	161,885	13,557	9,604	17,529	2,118	11,896	52,412	269,001
Charge/(Reversal) for the year	99,621	(7,834)	8,325	12,383	7,842	5,950	174,419	300,706
Amounts written off	-	-	-	-	-	-	(128,506)	(128,506)
At 31 December 2011	261,506	5,723	17,929	29,912	9,960	17,846	98,325	441,201
Collective impairment	71,540	5,723	17,929	29,912	9,960	16,645	73,592	225,301
Individual impairment	189,966	-	-	-	-	1,201	24,733	215,900
	261,506	5,723	17,929	29,912	9,960	17,846	98,325	441,201
Gross amount of loans individually determined to be impaired, before deducting any individually assessed impairment allowance	1,068,666	-	-	-	-	35,089	251,716	1,355,471

Loans and advances by customer profile may be specified as follows:

In thousand Armenian drams	2012	2011
State owned enterprises	**610,759**	1,511,669
Privately held companies	**21,455,019**	15,843,545
Individuals	**5,353,364**	4,295,412
Sole proprietors	**562,147**	632,572
	27,981,289	22,283,198
Less allowance for loan impairment	**(639,990)**	(441,201)
Total loans and advances to customers	**27,341,299**	21,841,997

Loans to individuals comprise the following products:

In thousand Armenian drams	**2012**	2011
Trade loans	**-**	853,986
Mortgage loans	**2,823,067**	1,679,164
Consumer loans	**800,642**	811,229
Car loans	**146,061**	172,437
Other	**1,583,594**	778,596
Total loans and advances to individuals (gross)	**5,353,364**	4,295,412

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as of 31 December 2012 are presented as follows:

In thousand Armenian drams	**2012**		2011	
	Fair value of collateral	**Carrying value of loans**	Fair value of collateral	Carrying value of loans
Securities issued by the Ministry of Finance of RA	**530,734**	**507,836**	501,243	493,459
Total assets pledged and loans under reverse repurchase agreements	**530,734**	**507,836**	501,243	493,459

As of 31 December 2011 Securities in the amount of AMD 501,243 thousand out of securities purchased under repurchase agreements were resold to third party with one month maturity period and the liability relating to these securities is stated in the trading liabilities row of the statement of financial position.

The finance lease receivables may be analyzed as follows:

In thousand Armenian drams	**2012**	2011
Gross investment in finance leases, receivable:		
Not later than 1 year	**1,320**	2,270
Later than 1 year and not later than 5 years	**-**	1,137
	1,320	3,407
Unearned future finance income on finance leases	**(46)**	(449)
Net investment in finance leases	**1,274**	2,958

The allowance for uncollectable finance lease receivables included in the allowance for impairment amounts to AMD 13 thousand at 31 December 2012 (2011: AMD 29 thousand).

Implied interest rate of the lease amounts to 20 %.

At 31 December 2012 and 2011 the estimated fair value of loans and advances to customers approximates it carrying value. Refer to Note 30.

Maturity analysis of loans and advances to customers is disclosed in Note 32.

Credit, currency and interest rate analyses of loans and advances to customers are disclosed in Note 33. The information on related party balances is disclosed in Note 29.

18 Investment securities available for sale

In thousand Armenian drams	2012	2011
Quoted investments		
Equity securities	**11,600**	19,857
	11,600	19,857
Unquoted investments		
Shares of Armenian companies	**334,103**	301,464
Securities issued by the Ministry of Finance of Armenia	**4,289,977**	3,869,540
Corporate bonds of RA	**419,334**	191,065
	5,043,414	4,362,069
Total investments	**5,055,014**	4,381,926

All debt securities have fixed coupons.

The fair value of unquoted available-for-sale debt securities is measured using a valuation technique, which uses current market rates to discount future cash flows of the financial instruments.

All unquoted RA available-for-sale equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold it for the long term.

Available for sale debt securities by effective interest rates and maturity date comprise:

In thousand Armenian drams	2012		2011	
	%	**Maturity**	%	Maturity
Securities issued by the Ministry of Finance of Armenia	**8.71-14.48**	**2013-2032**	10-16.49	2014-2028
Corporate bonds	**8.96-12.00**	**2013-2015**	10.92	2012

Debt securities available for sale at fair value of AMD 13,222,935 thousand (2011: AMD 11,442,926 thousand) are pledged to third parties for periods not exceeding one month. These have been reclassified as securities pledged under repurchase agreements on the face of the balance sheet (Note 26).

19 Property, plant and equipment

In thousand Armenian drams	Land and buildings	Computers and communication means	Vehicles	Office equipment	Capital investments in fixed assets	Total
COST						
Cost at January 1, 2011	551,825	121,014	27,883	75,621	-	776,343
Additions	277	5,871	26,758	1,130	49,708	83,744
Disposals	-	(806)	-	(405)	-	(1,211)
At December 31, 2011	**552,102**	**126,079**	**54,641**	**76,346**	**49,708**	**858,876**
Additions	**-**	**6,545**	**9,159**	**11,286**	**139,183**	**166,173**
Disposals	**-**	**(839)**	**(5,663)**	**(148)**	**-**	**(6,650)**
Reclassification	**(277)**	**-**	**-**	**-**	**277**	**-**
At December 31, 2012	**551,825**	**131,785**	**58,137**	**87,484**	**189,168**	**1,018,399**
DEPRECIATION						
At January 1, 2011	24,525	76,285	22,635	33,030	-	156,475
Depreciation charge	18,395	19,288	3,665	13,672	-	55,020
Disposals	-	(777)	-	(403)	-	(1,180)
At December 31, 2011	**42,920**	**94,796**	**26,300**	**46,299**	**-**	**210,315**
Depreciation charge	**18,394**	**16,881**	**8,291**	**12,894**	**-**	**56,460**
Disposals	**-**	**(839)**	**(5,525)**	**(144)**	**-**	**(6,508)**
At December 31, 2012	**61,314**	**110,838**	**29,066**	**59,049**	**-**	**260,267**
CARRYING VALUE						
At December 31, 2012	**490,511**	**20,947**	**29,071**	**28,435**	**189,168**	**758,132**
At December 31, 2011	509,182	31,283	28,341	30,047	49,708	648,561
At December 31, 2010	527,300	44,729	5,248	42,591	-	619,868

The management believes the fair value of the building of the Bank approximates its carrying amount.

As at 31 December 2012, the Bank does not possess any fixed assets pledged as security for liabilities or whose title is otherwise restricted.

Fully depreciated items

As at 31 December 2012 fixed assets included fully depreciated assets at cost in the amount of AMD 62,458 thousand (2011: AMD 62,719 thousand).

Contractual commitments

As at 31 December 2012 the Bank had no contractual commitments in respect of capital construction (2011: AMD 145,382 thousand).

20 Intangible assets

In thousand Armenian drams	Software	Total
COST		
At January 1, 2011	73,691	73,691
Additions	1,128	1,128
At December 31, 2011	**74,819**	**74,819**
Additions	**-**	**-**
At December 31, 2012	**74,819**	**74,819**
AMORTISATION		
At January 1, 2011	23,337	23,337
Amortization charge	7,698	7,698
At December 31, 2011	**31,035**	**31,035**
Amortization charge	**7,978**	**7,978**
At December 31, 2012	**39,013**	**39,013**
CARRYING VALUE		
At December 31, 2012	**35,806**	**35,806**
At December 31, 2011	43,784	43,784
At December 31, 2010	50,354	50,354

As at 31 December 2012, the Bank did not possess any intangible assets pledged as security for liabilities or whose title is otherwise restricted.

21 Other assets

In thousand Armenian drams	2012	2011
Amount receivable	**124,481**	60,945
Total other financial assets	**124,481**	60,945
Prepayments and other debtors	**12,760**	81,165
Confiscated property available for sale	**438**	13,800
Other prepaid taxes	**3,872**	4,232
Materials	**2,022**	1,306
Other assets	**23**	-
Total non financial assets	**19,115**	100,503
Total other assets	**143,596**	161,448

As at December 31, 2012 amounts receivable are due from disposal of assets in the amount of AMD 122,500 thousand (2011: amounts receivables in respect of the contract of sale of gold signed with "Profit SYSTEM" LLC in the amount of AMD 60,945 thousand).

22 Amounts due to the CBA

In thousand Armenian drams	**2012**	2011
Subordinate debt	**2,007,402**	2,007,990
Other loans and advances	**534,587**	617,562
Repurchase agreements	**12,922,977**	9,351,835
Total amounts due to the CBA	**15,464,966**	11,977,387

Other loans and advances include loans in the amount of AMD 534,587 thousand received within the scope of loan project "Development of the renewable energies" of the German-Armenian fund (2011: AMD 617,562 thousand).

The subordinate debt was provided on 29 October 2009 with a maturity term determined till 29 October 2014 with an interest rate of 7.5%.

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2011: nil).

23 Amounts due to other financial institutions

In thousand Armenian drams	**2012**	2011
Loans under repurchase agreements	**-**	1,748,250
Correspondent accounts of other banks	**1,690**	3,630
Current accounts of other financial institutions	**183,485**	202,985
Loans and deposits from Banks and financial institutions	**3,387,107**	3,932,228
Loans from international financial institutions	**3,851,963**	2,697,893
Other liabilities	**190,285**	-
Total amounts due to financial institutions	**7,614,530**	8,584,986

Loans from international financial institutions represent loans received within the scope of European Bank for Reconstruction and Development.

All deposits from banks have fixed interest rates.

As of 31 December 2012 the weighted average effective interest rate on amounts due to financial institutions was 7.15% (2011: 7.38%).

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2011: nil).

24 Amounts due to customers

In thousand Armenian drams	**2012**	2011
RA government		
Loans received from the RA government	**705,757**	1,212,611
Other liabilities	**20,000**	20,000
	725,757	1,232,611
Corporate customers		
Current/settlement accounts	**1,530,037**	1,317,039
Time deposits	**11,009,490**	9,410,198
	12,539,527	10,727,237
Retail customers		
Current/settlement accounts	**631,656**	450,118
Time deposits	**4,653,012**	3,330,271
	5,284,668	3,780,389
Total amounts due to customers	**18,549,952**	15,740,237

Loans and deposits carry fixed interest rates.

Loans from the RA government include amounts received within the scope of "Accrediting economic stability" program.

As at 31 December 2012 included in amounts due to customers are deposits amounting to AMD 2,238,190 thousand held as security against loans, guarantees and other contingent liabilities (2011: AMD 284,596 thousand). The fair value of those deposits approximates the carrying amount.

At 31 December 2012 the aggregate balance of top three customers of the Bank amounts to AMD 13,152,505 thousand (2011: AMD 9,325,604 thousand) or 71% of total customer accounts (2011: 64%).

As of 31 December 2012 the weighted average effective interest rates on amounts due to customers were 7.74% (2011: 6.56%).

25 Other liabilities

In thousand Armenian drams	**2012**	2011
Amounts payable	**10,338**	12,615
Tax payable, other than income tax	**51,071**	77,437
Accounts payables for factoring	**172,545**	85,194
Due to personnel	**77,575**	35,474
Other	**14,180**	21,324
Total other liabilities	**325,709**	232,044

26 Securities pledged under repurchase agreements

In thousand Armenian drams	Asset		Liability	
	2012	2011	**2012**	2011
Securities available for sale (Note 18, 22,23)	**13,222,935**	11,442,926	**12,922,977**	11,100,085
	13,222,935	11,442,926	**12,922,977**	11,100,085

27 Equity

As at 31 December 2012 the Bank's registered and paid-in share capital was AMD 7,002,000 thousand. In accordance with the Bank's statues, the share capital consists of 11,670 ordinary shares, all of which have a par value of AMD 600 thousand each.

The only shareholder of the Bank is the Swiss businessman Vardan Sirmakes.

As at 31 December 2012, the Bank did not possess any of its own shares.

Distributable among shareholders reserves equal the amount of retained earnings, determined according to the Armenian legislation. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15 % of the Bank's share capital reported in statutory books.

28 Contingent liabilities and commitments

Tax and legal matters

The taxation system in Armenia is characterized by frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among various taxation authorities and jurisdictions.

Often tax authorities claim additional taxes for transactions and accounting methods, for which they did not claim previously. As a result additional fines and penalties could arise. Tax review can include 3 calendar years immediately preceding the year of a review. In certain circumstances tax review can include earlier periods.

Management believes that the Bank has complied with all regulations and has completely settled all its tax liabilities.

Management also believes that the ultimate liability, if any, arising from legal actions and complaints taken against the Bank, will not have a material adverse impact on the financial condition or results of future operations of the Bank.

Loan commitment, guarantee and other financial facilities

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

As of 31 December the nominal or contract amounts were:

In thousand Armenian drams	2012	2011
Undrawn loan commitments	**1,809,637**	1,941,235
Guarantees	**659,325**	1,146,107
Letters of credit	**35,667**	-
Total commitments and contingent liabilities	**2,504,629**	3,087,342

The maximum exposure to credit risk of loan commitments, guarantee and other financial facilities is best represented by the total amount of these commitments and contingent liabilities.

Contractual commitments
Information on the Bank's contractual commitments is disclosed in Note 19.

Insurance
The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. However, as at 31 December 2012 the Bank's building and transportation are insured. The Bank possesses insurances for all banking liabilities, electronic or computer crimes and for professional responsibility.

Starting from 2005 the Bank is member of the obligatory deposit insurance system. The system operates under the Armenian laws and regulations and is governed by the Law on Guarantee of Physical Persons Deposits. Insurance covers Bank's liabilities to individual depositors for the amount up to AMD 4,000 thousand (up to AMD 2,000 thousand for deposits in foreign currency) for each individual in case of business failure and revocation of the banking license.

29 Transactions with related parties

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In respect of financial statements to be peresented, related parties include shareholders, members of Bank's Management as well as other persons and enterprises related with and controlled by them respectively.

The ultimate controlling party of the Bank is the only shareholder Swiss businessman Vardan Sirmakes.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

In thousand Armenian drams	2012		2011	
	Shareholders	**Key management personnel**	Shareholders	Key management personnel
Loans and advances to customers				
Loans outstanding at January 1, gross	**850,712**	**247,654**	628,548	271,794
Loans issued during the year	**188,735**	**410,299**	370,401	326,858
Loan repayments during the year	**(220,784)**	**(419,439)**	(148,237)	(350,998)
Loans outstanding at December 31, gross	**818,663**	**238,514**	850,712	247,654
Less allowance for loan impairment	**(8,187)**	**(2,385)**	(8,507)	(2,477)
Loans outstanding at December 31	**810,476**	**236,129**	842,205	245,177
Interest income on loans	**120,349**	**19,961**	113,892	20,420
Impairment charge /(reversal) for credit losses	**(320)**	**(92)**	2,222	(241)
Amounts due to customers				
Deposits at January 1	**10,634,740**	**31,723**	7,433,227	20,680
Deposits received during the year	**8,179,307**	**1,793,111**	24,972,996	1,285,552
Deposits repaid during the year	**(7,540,172)**	**(1,795,101)**	(21,771,483)	(1,274,509)
Deposits at December 31	**11,273,875**	**29,733**	10,634,740	31,723
Interest expense on deposits	**843,872**	**3,406**	609,848	559
Amounts due from other financial institutions				
At January 1	**1,003,545**	**-**	745,974	-
Increase	**4,207,788**	**-**	5,187,029	-
Decrease	**(3,620,241)**	**-**	(4,929,458)	-
At December 31	**1,591,092**	**-**	1,003,545	-
Interest income	**8,553**	**-**	9,177	-
Amounts due to other financial institutions				
At January 1	**2,373**	**-**	693	-
Increase	**6,779,292**	**-**	7,664,852	-
Decrease	**(6,781,314)**	**-**	(7,663,172)	-
At December 31	**351**	**-**	2,373	-
Guarantees issued	**133,671**	**14,668**	108,990	8,952
Income from guarantees	**5,025**	**241**	170	87
Payment to the contractor	**89,183**	**-**	99,985	-
Other assets	**122,500**	**-**	-	-
Statement of comprehensive income				
Fee and commission income	**2,088**	**2,430**	3,426	1,560
Other income	**157**	**405**	14	4

Compensation of key management personnel was comprised of the following:

In thousand Armenian drams	**2012**	2011
Salaries and other short-term benefits	**222,769**	236,892
Social security costs	**13,343**	13,692
Total key management compensation	**236,112**	250,584

The loans issued to directors and other key management personnel are repayable from 2012 to 2029 and have average interest rates of 7.7% (2011: 7.7%).

30 Fair value of financial instruments

Financial instruments not measured at fair value

The fair value of financial assets and liabilities, not presented on the balance sheet at their fair value, are presented below with their carrying values:

In thousand Armenian drams	2012		2011	
	Carrying value	**Fair value**	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with CBA	**4,799,612**	**4,799,612**	5,694,191	5,694,191
Precious metals	**84,567**	**84,567**	49,542	49,542
Amounts due from financial institutions	**3,134,471**	**3,134,471**	3,693,617	3,693,617
Loans and advances to customers	**27,341,299**	**27,341,299**	21,841,997	21,841,997
Other financial assets	**124,481**	**124,481**	60,945	60,945
FINANCIAL LIABILITIES				
Amounts due to the CBA	**15,464,966**	**15,464,966**	11,977,387	11,977,387
Amounts due to financial institutions	**7,614,530**	**7,614,530**	8,584,986	8,584,986
Amounts due to customers	**18,549,952**	**18,549,952**	15,740,237	15,740,237
Other financial liabilities	**172,545**	**172,545**	85,194	85,194

Amounts due from and to financial institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates, which are mainly the same as current interest rates.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 9.5% to 24% per annum and mainly coincide with the current rates.

Other borrowings

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

31.1 Fair Value Hierarchy

Financial assets and liabilities measured at fair value in the statement of financial position are presented below. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In thousand Armenian drams				**2012**
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Quoted securities and debentures	**11,600**	**-**	**-**	**11,600**
Unquoted debentures	**-**	**4,709,311**	**-**	**4,709,311**
Securities pledged under repurchase agreements	**-**	**13,222,935**	**-**	**13,222,935**
Derivative financial assets	**-**	**186**	**-**	**186**
Total	**11,600**	**17,932,432**	**-**	**17,944,032**
FINANCIAL LIABILITIES				
Derivative financial liabilities	**-**	**293**	**-**	**293**
Total	**-**	**293**	**-**	**293**
Net fair value	**11,600**	**17,932,139**	**-**	**17,943,739**

In thousand Armenian drams				2011
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Quoted securities and debentures	19,857	-	-	19,857
Unquoted debentures	-	4,060,605	-	4,060,605
Securities pledged under repurchase agreements	-	11,442,926	-	11,442,926
Derivative financial assets	-	20,764	-	20,764
Total	19,857	15,524,295	-	15,544,152
FINANCIAL LIABILITIES				
Derivative financial liabilities	-	5,506	-	5,506
Financial liabilities held for trading	-	798,055	-	798,055
Total	-	803,561	-	803,561
Net fair value	19,857	14,720,734	-	14,740,591

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Unquoted RA equity investments

The fair value of Bank’s investment in unquoted RA equity investments cannot be reliably measured and is therefore excluded from this disclosure. Refer to note 18 for further information about this equity investment.

32 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See Note 33.3 for the Bank’s contractual undiscounted repayment obligations.

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
								2012
ASSETS								
Cash and balances with CBA	**4,799,612**	**-**	**-**	***4,799,612***	**-**	**-**	**-**	**4,799,612**
Precious metals	**84,567**	**-**	**-**	***84,567***	**-**	**-**	**-**	**84,567**
Amounts due from other financial institutions	**2,859,239**	**5,479**	**58,180**	***2,922,898***	**146,957**	**64,616**	***211,573***	**3,134,471**
Derivative financial instruments	**100**	**86**	**-**	***186***	**-**	**-**	**-**	**186**
Loans and advances to customers	**2,507,765**	**3,149,767**	**7,038,447**	***12,695,979***	**11,630,390**	**3,014,930**	***14,645,320***	**27,341,299**
Investments available for sale	**12,613**	**125,352**	**425,425**	***563,390***	**1,854,303**	**2,637,321**	***4,491,624***	**5,055,014**
Securities pledged under repurchase agreements	**13,222,935**	**-**	**-**	***13,222,935***	**-**	**-**	**-**	**13,222,935**
Other assets	**-**	**124,481**	**-**	***124,481***	-	**-**	-	**124,481**
	23,486,831	**3,405,165**	**7,522,052**	***34,414,048***	**13,631,650**	**5,716,867**	***19,348,517***	**53,762,565**
LIABILITIES								
Amounts due to the CBA	**12,291,469**	**699,729**	**46,315**	***13,037,513***	**2,345,690**	**81,763**	***2,427,453***	**15,464,966**
Amounts due to other financial institutions	**3,378,856**	**249,151**	**2,614,464**	***6,242,471***	**1,292,340**	**79,719**	***1,372,059***	**7,614,530**
Derivative financial liabilities	**-**	**293**	**-**	***293***	**-**	**-**	**-**	**293**
Amounts due to customers	**2,604,086**	**663,183**	**4,447,043**	***7,714,312***	**10,835,640**	**-**	**10,835,640**	**18,549,952**
Other liabilities	**62,817**	**88,985**	**20,743**	***172,545***	**-**	**-**	**-**	**172,545**
	18,337,228	**1,701,341**	**7,128,565**	***27,167,134***	**14,473,670**	**161,482**	***14,635,152***	**41,802,286**
Net position	**5,149,603**	**1,703,824**	**393,487**	***7,246,914***	**(842,020)**	**5,555,385**	***4,713,365***	**11,960,279**
Accumulated gap	**5,149,603**	**6,853,427**	**7,246,914**		**6,404,894**	**11,960,279**		

In thousand Armenian drams	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
								2011
ASSETS								
Cash and balances with CBA	5,694,191	-	-	*5,694,191*	-	-	-	5,694,191
Precious metals	49,542	-	-	*49,542*	-	-	-	49,542
Amounts due from other financial institutions	2,885,726	20,202	613,018	*3,518,946*	149,962	24,709	*174,671*	3,693,617
Derivative financial instruments	16,164	-	4,600	*20,764*	-	-	-	20,764
Loans and advances to customers	1,717,402	1,682,845	4,860,644	*8,260,891*	11,606,981	1,974,125	*13,581,106*	21,841,997
Investments available for sale	32,583	96,401	117,097	*246,081*	2,227,655	1,908,190	*4,135,845*	4,381,926
Securities pledged under repurchase agreements	10,246,405	1,196,521	-	*11,442,926*	-	-	-	11,442,926
Other assets	60,945	-	-	*60,945*	-	-	-	60,945
	20,702,958	2,995,969	5,595,359	*29,294,286*	13,984,598	3,907,024	*17,891,622*	47,185,908

In thousand Armenian drams								2011
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Subtotal less than 12 months	From 1 to 5 years	More than 5 years	Subtotal over 12 months	Total
LIABILITIES								
Amounts due to the CBA	8,409,334	1,009,717	42,419	*9,461,470*	2,384,023	131,894	*2,515,917*	11,977,387
Financial liabilities held for trading	798,055	-	-	*798,055*	-	-	-	798,055
Amounts due to other financial institutions	2,981,639	1,648,749	2,222,002	*6,852,390*	1,700,854	31,742	*1,732,596*	8,584,986
Derivative financial liabilities	4,088	404	1,014	*5,506*	-	-	-	5,506
Amounts due to customers	2,360,133	312,924	2,410,017	*5,083,074*	*10,657,163*	-	*10,657,163*	15,740,237
Other liabilities	-	85,194	-	*85,194*	-	-	-	85,194
	14,553,249	3,056,988	4,675,452	*22,285,689*	14,742,040	163,636	*14,905,676*	37,191,365
Net position	6,149,709	(61,019)	919,907	*7,008,597*	(757,442)	3,743,388	*2,985,946*	9,994,543
Accumulated gap	6,149,709	6,088,690	7,008,597		6,251,155	9,994,543		

33 Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure
The Board of the Bank is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of the Bank
The Board of the Bank is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management
The Management has the responsibility to monitor the overall risk process.

Credit Committee
The Credit Committee performs overall management and control of the credit risk, approves credits within the scopes of its limits.

Risk Management Department
The Risk Management Department is responsible for the principles and policy of management of investment risks, and for the development and implementation of the Bank's risk limits.

Financial Officer

Financial Officer is responsible for the management of the Bank's assets and liabilities and for maintaining control over the main economic norms of the Bank's activity.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that estimates the adequacy of the procedures, the compliance of the Bank's activity with the procedures, as well as the efficiency of operations carried out by the Bank and the opportunities for their improvement. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Management and Board of the Bank.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, risk profile changes and other indicators.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other foreign currency instruments, as well as obtains insurance certificates for overall banking risks, movable and immovable property.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

33.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Bank's Risk Management Department and reported to the Board of the Bank.

The carrying amounts of the Bank's financial assets best represent the maximum exposure to credit risk related to them, without taking account of any collateral held or other credit enhancements.

33.1.1 Risk concentrations of the maximum exposure to credit risk

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December.

In thousand Armenian drams				2012
	Armenia	Other non-OECD countries	OECD countries	Total
Balances with CBA	**4,027,164**	**-**	**-**	**4,027,164**
Precious metals	**84,567**	**-**	**-**	**84,567**
Amounts due from other financial institutions	**1,954,890**	**438,410**	**741,171**	**3,134,471**
Derivative financial assets	**186**	**-**	**-**	**186**
Loans and advances to customers	**26,778,626**	**74,605**	**488,068**	**27,341,299**
Investments available for sale	**5,020,539**	**22,875**	**11,600**	**5,055,014**
Securities pledged under repurchase agreements	**13,222,935**	**-**	**-**	**13,222,935**
Other assets	**124,481**	**-**	**-**	**124,481**
As at 31 December 2012	**51,213,388**	**535,890**	**1,240,839**	**52,990,117**
As at 31 December 2011	45,039,438	1,012,507	281,373	46,333,318

Assets have been classified based on the country in which the counterparty is located.

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of the counterparties as of 31 December 2012 and 31 December 2011.

In thousand Armenian drams	Financial institutions	Industry	Agriculture	Construction	Trading	Consumer sector	Mortgage	Other	Total
Balances with CBA	**4,027,164**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,027,164**
Precious metals	**84,567**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84,567**
Amounts due from other financial institutions	**3,134,471**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,134,471**
Derivative financial assets	**186**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**186**
Loans and advances to customers	**-**	**10,886,174**	**2,204,101**	**1,812,656**	**4,136,880**	**792,636**	**2,797,274**	**4,711,578**	**27,341,299**
Investments available for sale	**5,055,014**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,055,014**
Securities pledged under repurchase agreements	**13,222,935**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,222,935**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**124,481**	**124,481**
As at 31 December 2012	**25,524,337**	**10,886,174**	**2,204,101**	**1,812,656**	**4,136,880**	**792,636**	**2,797,274**	**4,836,059**	**52,990,117**
As at 31 December 2011	24,846,383	8,809,311	1,489,286	1,775,005	2,961,255	986,086	1,681,723	4,139,329	46,333,318

33.1.2 Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of the Bank.

The Board has defined criteria for choosing counterparties in the framework of credit risk based on the rating of famous credit rating agencies such as S&P's and Moody's Credit Rating agencies. The Board of the Bank exceptionally specifies corresponding limits of credit risk if a necessity arises to collaborate with a counterparty which does not have investment reputation.

The exposure to any one borrower including banks and financial organizations is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Real estate pledged by mortgage contracts;
- Charges over business assets such as premises, other fixed assets and inventory;
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The analysis of loan portfolio by collateral is represented as follows:

In thousand Armenian drams	**2012**	2011
Loans collateralized by real estate	**18,064,772**	11,585,053
Loans collateralized by movable property	**144,908**	367,142
Loans collateralized by Armenian Government guarantees	**4,741,216**	3,324,082
Loans collateralized by guarantees of other organizations	**3,734,628**	3,638,212
Loans collateralized by shares of other companies	**108,383**	1,185,052
Loans collateralized by cash	**86,522**	279,994
Unsecured loans	**-**	450,761
Other collateral	**1,100,860**	1,452,902
Total loans and advances to customers (gross)	**27,981,289**	22,283,198

The amounts presented in the table above are carrying values of the loans, and do not necessarily represent the fair value of the collaterals. Estimates of market values of collaterals are based on valuation of the collateral at the date when loans were provided. Generally they are not updated unless loans are assessed as individually impaired.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

33.1.3 Impairment and provisioning policies

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment into areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Loans and advances neither past due or impaired

The table below shows the credit quality by class of asset for loans and advances neither past due or impaired, based on the historical counterparty default rates.

In thousand Armenian drams	**2012**	2011
Loans and advances to customers		
Industry	**-**	0.9%
Agriculture	**1.1%**	-
Construction	**1.2%**	-
Transport and communications	**1.5%**	-
Trade	**0.8%**	0.8%
Mortgage	**0.5%**	-
Other	**3.1%**	2.8%

As of 31 December 2012 and 2011 the Bank has not had any losses on other financial assets bearing credit risk.

Past due, but not impaired loans

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired. Analysis of past due loans by age and by class is provided below.

In thousand Armenian drams					**2012**
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to customers					
Industry	**98,304**	**4,232**	**-**	**147,282**	**249,818**
Construction	**-**	**-**	**16,644**	**-**	**16,644**
Consumer sector	**-**	**-**	**6,658**	**-**	**6,658**
Agriculture	**-**	**-**	**137,337**	**-**	**137,337**
Trade	**12,593**	**-**	**-**	**-**	**12,593**
Other	**-**	**29,061**	**13,254**	**253,578**	**295,893**
Total	**110,897**	**33,293**	**173,893**	**400,860**	**718,943**

In thousand Armenian drams					2011
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Industry	-	-	-	1,235	1,235
Construction	-	42,649	-	-	42,649
Consumer sector	-	7,623	-	-	7,623
Mortgage	-	-	9,934	-	9,934
Other	-	11,159	-	-	11,159
Total	-	61,431	9,934	1,235	72,600

Loans and advances individually impaired

The total gross amount of individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AMD 1,342,074 thousand (2011: AMD 1,355,471 thousand). Refer to Note 17.

33.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The market risk is managed and monitored based on sensitivity analysis and stress tests. The foreign currency risk is managed and monitored based on hedging strategies and positions management.

33.2.1 Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2012, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2012 for the effects of the assumed changes in interest rates.

The sensitivity of equity is analysed by maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

In thousand Armenian drams							**2012**
			Sensitivity of equity				
Currency	**Change in basis points**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
AMD	**0.5**	**-**	**(50)**	**(305)**	**(10,107)**	**(28,322)**	**(38,784)**
USD	**0.5**	**-**	**-**	**-**	**-**	**-**	**-**
AMD	**(0.5)**	**-**	**50**	**306**	**10,136**	**28,561**	**39,053**
USD	**(0.5)**	**-**	**-**	**-**	**-**	**-**	**-**

In thousand Armenian drams							2011
			Sensitivity of equity				
Currency	Change in basis points	Sensitivity of net interest income	Up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
AMD	0.5	-	(232)	(332)	(12,620)	(29,719)	(42,903)
USD	0.5	-	-	-	-	-	-
AMD	(0.5)	-	231	332	12,638	29,867	43,068
USD	(0.5)	-	-	-	-	-	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculated the effect of a reasonably possible movement of the currency rate against the Armenian dram, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges, and equity instruments).

A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

In thousand Armenian drams	**2012**		2011	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax
USD	**3%**	**23,952**	3%	(13,371)
EUR	**3%**	**(256)**	3%	119

The Bank's exposure to foreign currency exchange risk is as follows:

In thousand Armenian drams	**Armenian Dram**	**Freely convertible currencies/ Precious metals**	**Non-freely convertible currencies**	**Total**
ASSETS				
Cash and balances with the CBA	**2,233,004**	**2,545,313**	**21,295**	**4,799,612**
Precious metals	**-**	**84,567**	**-**	**84,567**
Amounts due from other financial institutions	**1,721,975**	**1,323,352**	**89,144**	**3,134,471**
Derivative financial assets	**186**	**-**	**-**	**186**
Loans and advances to customers	**7,931,985**	**19,400,694**	**8,620**	**27,341,299**
Investments available for sale	**4,828,913**	**219,905**	**6,196**	**5,055,014**
Securities pledged under repurchase agreements	**13,222,935**	**-**	**-**	**13,222,935**
Other assets	**124,481**	**-**	**-**	**124,481**
	30,063,479	**23,573,831**	**125,255**	**53,762,565**
LIABILITIES				
Amounts due to the CBA	**15,464,966**	**-**	**-**	**15,464,966**
Amounts due to financial institutions	**1,379,737**	**6,220,644**	**14,149**	**7,614,530**
Derivative financial liabilities	**293**	**-**	**-**	**293**
Amounts due to customers	**1,638,496**	**16,788,261**	**123,195**	**18,549,952**
Other liabilities	**157,794**	**14,751**	**-**	**172,545**
	18,641,286	**23,023,656**	**137,344**	**41,802,286**
Net position as at 31 December 2012	**11,422,193**	**550,175**	**(12,089)**	**11,960,279**
Commitments and contingent liabilities as at 31 December 2012	**898,520**	**1,551,641**	**54,468**	**2,504,629**
Total financial assets	28,889,580	18,157,682	138,646	47,185,908
Total financial liabilities	18,282,046	18,855,184	54,135	37,191,365
Net position as at 31 December 2011	10,607,534	(697,502)	84,511	9,994,543
Commitments and contingent liabilities as at 31 December 2011	2,115,044	903,562	68,736	3,087,342

Freely convertible currencies represent mainly US dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Republic of Armenia.

33.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily bases. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains an obligatory minimum reserve deposits with the Central Bank of Armenia equal to 8% of certain obligations of the Bank denominated in Armenian drams and 12% on certain obligations of the Bank denominated in foreign currency. See note 13. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Armenia.

	Not audited	
As at 31 December, these ratios were as follows:	**2012, %**	2011, %
N21- Total liquidity ratio (Highly liquid assets/ Total assets)	**31.30**	32.45
H22- Current liquidity ratio (Highly liquid assets /liabilities on demand)	**528.38**	425.99

Analysis of financial liabilities by remaining contractual maturities.

The table below summarises the maturity profile of the Bank’s financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations. See note 32 for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

In thousand Armenian drams						2012
	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to the CBA	**12,309,473**	**749,205**	**171,983**	**2,497,223**	**87,802**	**15,815,686**
Amounts due to financial institutions	**3,411,933**	**266,097**	**2,727,441**	**1,436,839**	**89,275**	**7,931,585**
Amounts due to customers	**2,700,542**	**913,201**	**5,393,898**	**11,868,353**	**-**	**20,875,994**
Other liabilities	**62,817**	**88,985**	**20,743**	**-**	**-**	**172,545**
Total undiscounted non-derivative financial liabilities	**18,484,765**	**2,017,488**	**8,314,065**	**15,802,415**	**177,077**	**44,795,810**
Credit risk commitments	**1,924,942**	**61,661**	**298,540**	**219,486**	**-**	**2,504,629**
Derivative financial liabilities						
Currency swap contracts						
Inflow	**824,551**	**185,002**	-	-	-	**1,009,553**
Outflow	**821,735**	**186,220**	**-**	**-**	**-**	**1,007,995**

In thousand Armenian drams						2011
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
NON-DERIVATIVE FINANCIAL LIABILITIES						
Amounts due to the CBA	8,935,118	1,051,733	171,078	2,703,336	143,303	13,004,568
Financial liabilities held for trading	798,225	-	-	-	-	798,225
Amounts due to financial institutions	2,997,096	1,660,179	2,374,547	1,904,868	35,968	8,972,658
Amounts due to customers	2,702,362	771,726	2,585,564	12,955,438	-	19,015,090
Other liabilities	-	85,324	-	-	-	85,324
Total undiscounted non-derivative financial liabilities	15,432,801	3,568,962	5,131,189	17,563,642	179,271	41,875,865
Commitments and contingent liabilities	1,840,601	377,873	391,726	477,142	-	3,087,342
Derivative financial liabilities						
Currency swap contracts						
Inflow	2,107,146	199,807	634,568	-	-	2,941,521
Outflow	2,096,684	201,427	638,607	-	-	2,936,718

33.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements, including the minimal requirements of the Central Bank of Armenia on internal control system;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank to which they relate, with summaries submitted to the Board.

34 Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established in 1988 by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Armenia in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The minimum ratio between total capital and risk weighted assets required by the Central Bank of Armenia is 12%.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit and general reserve. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserve.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operating risks.

As of 31 December 2012 and 2011 the amount of regulatory capital, risk waited assets and capital adequacy ratio calculated in accordance with the requirements of Central Bank of Armenia are provided below.

	Not audited	
In thousand Armenian drams	**2012**	2011
Tier 1 capital	**11,563,986**	10,050,735
Tier 2 capital	**635,781**	884,205
Total regulatory capital	**12,199,767**	10,934,940
Risk-weighted assets	**55,606,823**	45,848,440
Capital adequacy ratio	**21.94%**	23.85%

The Bank has complied with all externally imposed capital requirements through the period.

The Central Bank of Armenia has set the minimal required total capital at AMD 5,000,000 thousand from January 1, 2009.

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